

# EMPLOYER BULLETIN

## Suggested Format to Comply with Pension Disclosure Requirements of GASB Statement Numbers 24 and 27

July 2006

Please forward a copy of this bulletin to the auditors of your financial statements and to your district superintendent.

### Overview

The following information covers your reporting requirements under two statements issued by the Governmental Accounting Standards Board (GASB). Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, provides reporting requirements for state contributions made on behalf of your TRS-covered employees. Statement No. 27, *Accounting for Pensions by State and Local Government Employers*, provides reporting requirements for other types of employer contributions.

On pages three and four, we have provided a suggested format for disclosure that covers both GASB statements. When using the suggested format, please substitute your amounts where “\$xx,xxx” occurs. The suggested format also provides for disclosure of the applicable contributions in the two previous fiscal years.

If your district’s financial statements use a payroll figure that is different from the amount reported to us as creditable earnings or if your district’s financial statements are on a cash basis rather than an accrual basis, ask your district’s auditors which payroll figure to use for GASB disclosure.

### “On behalf” employer contributions

For the year ended **June 30, 2006**, the estimated state contribution made on behalf of your TRS-covered employees can be determined by multiplying TRS-covered salaries by the statutory

contribution rate of **7.06** percent. (For the years ended June 30, 2005 and June 30, 2004, the state on behalf contribution rates were 11.76 percent and 13.98 percent of covered payrolls in those years, respectively.) Please note that the State of Illinois sent the “on behalf” employer contributions directly to us. Because you do not remit these contributions, we cannot verify the “on behalf” contributions for individual employers.

The rates we use in this bulletin are state contribution rates certified according to state statute. Actual state contributions are based on these rates and member payrolls estimated by the actuaries. Actual member payroll may vary from estimated payroll.

**Note:** If you are preparing your budget for the fiscal year ending **June 30, 2007**, the certified state on behalf contribution rate is **9.78** percent of covered payroll. This will also be the employer contribution rate for employees paid from federal and trust funds.

### Other employer contributions

We have suggested additional language for payments made to us for other types of employer contributions. The first three types have been in effect for several years:

- district contributions for the 2.2 formula change,
- district contributions for members paid from federal and trust funds, and
- district contributions for the Early Retirement Option (ERO).

Public Act 94-0004, enacted on June 1, 2005, made changes in the employer ERO contribution rate, as explained in more detail in the suggested disclosure language. The act also added two new employer contributions to TRS.

- If an employer grants salary increases over 6 percent and those salaries are used to calculate a retiree's final average salary, the employer makes a contribution to TRS. The contribution will cover the difference in actuarial cost of the benefit based on actual salary increases and the benefit based on salary increases of up to 6 percent.
- If an employer grants sick leave days in excess of the normal annual allotment and those days are used as TRS service credit, the employer makes a contribution to TRS. The contribution is based on the number of excess sick leave days used as service credit, the highest salary used to calculate final average salary, and the TRS total normal cost rate (17.60 percent of pay during the year ended June 30, 2006).

These new contributions were first expected during fiscal year 2006. However, many districts were not required to make them because the act exempted salary increases and sick leave granted under contracts or collective bargaining agreements entered into, amended, or renewed prior to June 1, 2005.

If your district did not make the new contributions required under Public Act 94-0004, you and your auditors can decide how or if you want to mention that they did not apply. Another bill that passed the Illinois General Assembly in May 2006 but has not yet been signed into law provides exemptions from employer contributions for certain earnings.

## **Questions**

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If you have questions, please contact the Accounting Department by calling (888) 877-0890, option 2 or via e-mail at [employers@trs.illinois.gov](mailto:employers@trs.illinois.gov). Additional copies of this bulletin may be obtained from the TRS Web site.

Auditors wishing to confirm the amount of contributions remitted by employers (other than "on behalf" contributions) should mail these requests to the Employer Services Department at the TRS address printed on the front of this bulletin or e-mail the request to the above e-mail address.

## **Suggested format for disclosure of employer contributions to TRS**

The school district (employer) participates in the Teachers' Retirement System of the State of Illinois (TRS). TRS is a cost-sharing multiple-employer defined benefit pension plan that was created by the Illinois legislature for the benefit of Illinois public school teachers employed outside the city of Chicago.

The Illinois Pension Code outlines the benefit provisions of TRS, and amendments to the plan can be made only by legislative action with the Governor's approval. The State of Illinois maintains primary responsibility for the funding of the plan, but contributions from participating employers and members are also required. The TRS Board of Trustees is responsible for the system's administration.

TRS members include all active nonannuitants who are employed by a TRS-covered employer to provide services for which teacher certification is required. The active member contribution rate for the year ended June 30, 2006, was 9.4 percent of creditable earnings. These contributions, which may be paid on behalf of employees by the employer, are submitted to TRS by the employer.

In addition, virtually all employers and members pay a contribution to the Teachers' Health Insurance Security (THIS) Fund, a separate fund in the State Treasury that is not a part of this retirement plan. The employer THIS Fund contribution was 0.6 percent during the year ended June 30, 2006, and the member THIS Fund health insurance contribution was 0.80 percent.

The State of Illinois makes contributions directly to TRS on behalf of the district's TRS-covered employees.

- ***On behalf contributions***

The State of Illinois makes employer pension contributions on behalf of the district. For the year ended June 30, 2006, State of Illinois contributions were based on 7.06 percent of creditable earnings, and the district recognized revenue and expenditures of \$xx,xxx

in pension contributions that the State of Illinois paid directly to TRS. For the years ended June 30, 2005 and June 30, 2004, the State of Illinois contribution rates as percentages of creditable earnings were 11.76 percent (\$xx,xxx) and 13.98 percent (\$xx,xxx), respectively.

The district makes other types of employer contributions directly to TRS.

- ***2.2 formula contributions***

Employers contribute 0.58 percent of creditable earnings for the 2.2 formula change. Contributions for the year ended June 30, 2006 were \$xx,xxx. Contributions for the years ending June 30, 2005, and June 30, 2004, were \$xx,xxx and \$xx,xxx, respectively.

- ***Federal and trust fund contributions***

When TRS members are paid from federal and trust funds administered by the district, there is a statutory requirement for the district to pay an employer pension contribution from those funds. Under a policy adopted by the TRS Board of Trustees that was first effective in the fiscal year ended June 30, 2006, employer contributions for employees paid from federal and trust funds will be the same as the state contribution rate to TRS.

For the year ended June 30, 2006, the employer pension contribution was 7.06 percent of salaries paid from federal and trust funds. For the two years ended June 30, 2005, the employer pension contribution was 10.5 percent of salaries paid from those funds. For the year ended June 30, 2006, salaries totaling \$xx,xxx were paid from federal and trust funds that required employer contributions of \$xx,xxx. For the years ended June 30, 2005 and June 30, 2004, required district contributions were \$xx,xxx and \$xx,xxx, respectively.

- ***Early Retirement Option (ERO)***

The district is also required to make one-time employer contributions to TRS for members retiring under the Early Retirement Option

(ERO). The payments vary depending on the age and salary of the member and under which ERO program the member retires.

Under Public Act 94-0004, a “Pipeline ERO” program is provided for members to retire under the same terms as the ERO program that expired June 30, 2005, provided they meet certain conditions and retire on or before July 1, 2007. If members do not meet these conditions, they can retire under the “Modified ERO” program which requires higher member and employer contributions to TRS. Also, under Modified ERO, Public Act 94-0004 eliminates the waiver of member and employer ERO contributions that had been in effect for members with 34 years of service (unless the member qualifies for the Pipeline ERO).

Under the ERO program that expired on June 30, 2005 and the Pipeline ERO, the maximum employer contribution is 100 percent of the member’s highest salary used in the final average salary calculation.

Under the Modified ERO, the maximum employer contribution is 117.5 percent.

Both the 100 percent and 117.5 percent maximums apply when the member is age 55 at retirement.

For the year ended June 30, 2006, the district paid \$xx,xxx to TRS for employer contributions under the Pipeline ERO and Modified ERO programs. For the years ended June 30, 2005 and June 30, 2004, the district paid \$xx,xxx in employer ERO contributions.

### **Further information**

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TRS financial information, an explanation of TRS benefits, and descriptions of member, employer and state funding requirements can be found in the TRS *Comprehensive Annual Financial Report* for the year ended June 30, 2005. The report for the year ended June 30, 2006, is expected to be available in late 2006.

The reports may be obtained by writing to the Teachers’ Retirement System of the State of Illinois, P.O. Box 19253, 2815 West Washington Street, Springfield, IL 62794-9253. The most current report is also available on the TRS Web site at [trs.illinois.gov](http://trs.illinois.gov).